

SECURITY COORDINATION AGREEMENT

This Security Coordination Agreement (“Agreement”) is made and entered into by and between [Individual Control Area Operator Signatory, i.e., PacifiCorp], a _____ the Control Area Operator (“CAO”), and Pacific Northwest Security Coordinator (“PNSC”), a Washington nonprofit corporation. PNSC and CAO are referred to in this Agreement individually as “Party” and in the plural as “Parties.”

RECITALS

- A. North America currently has a highly reliable electric system.
- B. The Parties believe that information sharing and operational coordination among control area operators in the NWPP Subregion (as that term is defined below), facilitated by a security coordinator responsible for monitoring operating conditions of the NWPP Subregion’s transmission network, can contribute to transmission system reliability.
- C. PNSC was created to serve as the NWPP Subregion’s security coordinator in accordance with the provisions of agreements between PNSC and control area operators in the NWPP Subregion.
- D. This Agreement defines the relationship between PNSC and CAO.

AGREEMENT

PNSC and CAO agree as follows:

1. DEFINITIONS. In addition to the terms defined above, the following capitalized terms, as used in this Agreement (whether in singular or plural form), have the meanings specified below:

1.1 “Adjoining Security Coordination Area” means any part of the Western Interconnection for which an Other Security Coordinator provides security coordination services similar to those provided by PNSC under this Agreement.

1.2 “Claims Committee” means the insurance claims committee established, to the satisfaction of the Board of Directors of PNSC, by the policy holder of the insurance described in Section 9.1.1 of this Agreement.

1.3 “Control Area” means an electrical system bounded by interconnection (tie-line) metering and telemetry that is (1) capable of controlling generation to maintain its interchange schedule with other Control Areas and contributing to frequency regulation of the Western Interconnection and, subject to the provisions of Section 13.12, (2) operated in accordance with the standards, criteria, guidelines, and operating procedures of the WSCC.

1.4 “Damages” means any claims, losses, costs, expenses, damages (including without limitation direct, indirect, incidental, consequential, special, exemplary, and punitive damages), payments made in settlement, arbitration awards, and liabilities, including reasonable attorneys’ fees.

1.5 “Designated Confidential Information” has the meaning specified in Section 7.3 of this Agreement.

1.6 “Executive Authority” means (1) with respect to the Bonneville Power Administration, the Administrator; (2) with respect to any public utility district, the board of Commissioners; (3) with respect to any municipality or department of a municipality, the City Council or Utility Board; and (4) with respect to any other utility, the Chief Executive Officer.] *[Note: This definition is needed only in Agreements that contain, at Section 6.3, a provision entitled “Additional Limitations on CAO’s Obligations to Comply with PNSC Directives.” If this provision is omitted, the subheading and text following the section number will be replaced by the notation “This section intentionally omitted.”]*

1.7 “FERC” means the Federal Energy Regulatory Commission or its successor.

1.8 “Generation and Outage Data” has the meaning specified in Section 7.2 of this Agreement.

1.9 “Good Utility Practice” means any of the practices, methods, and acts engaged in or approved by a significant portion of the electric utility industry in the Western Interconnection during the relevant time period, or any of the practices, methods, and acts that, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety, and expedition. Good Utility Practice is not intended to be the optimum practice, method, or act to the exclusion of all others, but rather to be acceptable practices, methods, or acts generally accepted in the Western Interconnection.

1.10 “NERC” means the North American Electric Reliability Council or its successor.

1.11 “NWPP” means the Northwest Power Pool or its successor.

1.12 “NWPP Subregion” means the geographical area encompassed by the combined electric systems of the members of the NWPP (and any Person eligible for membership in the NWPP) in the states

of Idaho, Montana, Oregon, and Washington, together with portions of northern California, northern Nevada, Utah, Wyoming, and the Canadian provinces of British Columbia and Alberta.

1.13 “Other NWPP CAO” means any Person (other than CAO): (1) that operates a Control Area within the NWPP Subregion; and (2) to which PNSC provides security coordination services under an agreement substantially similar to this Agreement.

1.14 “Other Security Coordinator” means any Person that provides security coordination services (similar to those provided by PNSC under this Agreement) to any one or more Persons located within the Western Interconnection but outside the NWPP Subregion.

1.15 “Person” means any individual, association, municipality, public utility district, federal power marketer, corporation, partnership, limited liability company, or other business organization or governmental body or agency.

1.16 “Subcontractors” has the meaning specified in Section 9.4(5).

1.17 “Subregional Disturbance” means any condition or event occurring within the Western Interconnection that causes, or has the potential to cause, a serious disruption of transmission service that is not wholly confined to a single Control Area within the Western Interconnection.

1.18 “Uncontrollable Force” means any act of God, labor disturbance, act of the public enemy, war, insurrection, riot, fire, storm or flood, earthquake, explosion, accident to or breakage, failure or malfunction of machinery or equipment, or any other cause beyond a Party’s reasonable control and to the extent without that Party’s fault or negligence.

1.19 “Western Interconnection” means the synchronously operated interconnected electric transmission systems located in the western United States, the Mexican state of Baja California, and the Canadian provinces of British Columbia and Alberta.

1.20 “Willful Action” means an action taken or not taken by a Party, which action is knowingly or intentionally taken or failed to be taken, with intent that injury or damage would result therefrom or which action is wantonly reckless. Willful Action does not include any act or failure to act which is involuntary, accidental, negligent or grossly negligent.

1.21 “WSCC” means the Western Systems Coordinating Council or its successor.

2. EFFECTIVE DATE AND FERC FILING.

2.1 Effective Date. Subject to Section 2.2 below, this Agreement shall be effective as of the date PNSC delivers written notice to CAO that both of the following conditions have been satisfied:

- (1) PNSC has entered into an arrangement it deems satisfactory with respect to funding for the performance of its obligations under this Agreement; and
- (2) PNSC has obtained insurance arrangements it deems satisfactory that fulfill the requirements of Section 9.1.1 below.

2.2 FERC Filing. This Agreement shall be effective in accordance with the provisions of Section 2.1 above. If, with respect to a CAO subject to FERC jurisdiction, FERC accepts this Agreement for filing, but in connection with acceptance for filing requires changes to this Agreement either Party deems unacceptable, the Parties shall promptly meet and attempt to amend this Agreement in a manner acceptable to both Parties and to FERC. CAO shall then re-submit the Agreement as amended to FERC for filing. If the Parties are unable to agree on amendments to this Agreement acceptable to FERC, or if FERC does not accept this Agreement for filing upon re-submission without further changes either Party deems unacceptable, this Agreement shall be void ab initio. Thereafter, PNSC shall promptly provide written notice to every Other NWPP CAO informing them that this Agreement has been rendered void ab initio and describing the unacceptable changes required by FERC.

3. GENERAL SECURITY COORDINATION OBJECTIVES.

3.1 Guiding Principles for PNSC Action. PNSC's paramount objective under this Agreement shall be to preserve transmission service to the maximum aggregate load within the NWPP Subregion, even if this at times requires controlled, short-term interruptions of transmission service to loads within the NWPP Subregion to prevent uncontrolled, wide-spread disruptions of transmission service throughout the NWPP Subregion.

3.2 Expectations Concerning PNSC Directives. An essential purpose of this Agreement is to seek to use information-sharing and operational coordination to help avoid wide-spread transmission service disruptions within the NWPP Subregion and to mitigate the extent, severity, and duration of those transmission service disruptions that occur. The Parties anticipate that to the extent Control Areas within the Western Interconnection are operated in accordance with Good Utility Practice, the development of circumstances that allow PNSC to direct CAO to take action under Section 6.1 should be rare and extraordinary and that therefore actions directed by PNSC under Section 6.1 also should be rare and extraordinary.

4. THE PARTIES' RIGHTS AND RESPONSIBILITIES UNDER NORMAL OPERATING CONDITIONS.

4.1 PNSC's Responsibilities Under Normal Operating Conditions. Under normal system operating conditions during day-ahead planning and current-day operations, PNSC's basic responsibility shall be to make broad assessments of conditions within the NWPP Subregion and to communicate to CAO any information it receives or develops about potential or actual critical operating

conditions that are likely to affect CAO's Control Area. Without limiting the generality of the foregoing, in particular PNSC shall:

- (1) gather and analyze operating information provided to PNSC by CAO and Other NWPP CAOs;
- (2) monitor the condition of the NWPP Subregion, including without limitation net interchange schedules, actual flows, aggregate subregional operating reserves and reactive supply, system voltage and frequency, area control error, time error, and, as PNSC deems appropriate, similar conditions in Adjoining Security Coordination Areas;
- (3) perform security assessments (including use of dynamic and voltage security programs when they become available) using data and planned outage information provided by CAO, Other NWPP CAOs, Other Security Coordinators, and other sources and applicable accepted industry, NERC, WSCC, or NWPP standards for operating reliability;
- (4) as PNSC deems appropriate, maintain communications with Other Security Coordinators and work cooperatively with Other Security Coordinators in an effort to analyze and avert or remedy any potential or existing transmission instability or failure that affects both the NWPP Subregion and one or more Adjoining Security Coordination Areas;
- (5) as PNSC deems appropriate, facilitate flow of other security-related information between CAO and Other NWPP CAOs, between PNSC and Other Security Coordinators, and between CAO and Other Security Coordinators;
- (6) participate in the development, coordination, and implementation of subregional plans to mitigate impacts of potential, expected, or actual critical operating conditions (such as the NWPP restoration plan, the NWPP underfrequency load-shedding program, and the NWPP reserve sharing plan);
- (7) coordinate regional restoration planning; and
- (8) make good faith efforts to cause data and information provided by PNSC to CAO under this Agreement to be accurate; *provided, however*, that PNSC shall not be liable for damages resulting from the provision of inaccurate or incomplete data or information, except to the extent that such inaccuracy or incompleteness results from PNSC's Willful Action.

4.2 CAO's Responsibilities Under Normal Operating Conditions . Under normal system operating conditions during day-ahead planning and current-day operations, CAO shall:

- (1) make good faith efforts to provide promptly to PNSC data and information reasonably requested by PNSC to enable PNSC to carry out its obligations under this Agreement, in the form, manner, and at the data rate reasonably requested by PNSC; *provided, however,* that CAO shall not be liable for damages resulting from the provision of inaccurate or incomplete data or information, except to the extent that such inaccuracy or incompleteness results from CAO's Willful Action; and
- (2) make good faith efforts to cause data and information provided to PNSC under this Agreement to be accurate; *provided, however,* that CAO shall not be liable for damages resulting from the provision of inaccurate or incomplete data or information, except to the extent that such inaccuracy or incompleteness results from CAO's Willful Action.

PNSC shall not, by this Agreement, assume any responsibility CAO otherwise has for:

- (a) reliability within the boundaries of its Control Area; or
- (b) CAO's own personnel, equipment, and facilities.

4.3 PNSC Not Responsible for FERC Order 888 and 889 Compliance. PNSC shall have no responsibility for: (1) any obligation CAO may have to comply with open-access transmission tariff filing and substantive requirements as set forth in Order 888 (and subsequent related orders) of FERC Docket Nos. RM94-7-000 *et seq*, RM95-8-000 *et seq*, and RM95-9-000 *et seq* (if applicable) or any other similar laws or regulations concerning nondiscriminatory access to or curtailment of transmission services; or (2) any obligation CAO may have to comply with the Code of Conduct filing and substantive requirements as set forth in Order 889 (and subsequent related orders) of FERC Docket Nos. RM94-7-000 *et seq*, RM95-8-000 *et seq*, and RM95-9-000 *et seq* (if applicable) and any other similar laws or regulations applicable to CAO's provision and use of operating information relating to its transmission system. To the extent CAO is subject to FERC Orders 888 or 889 (including subsequent related orders) or any similar laws or regulations, nothing in this Agreement shall require CAO to take any action that is inconsistent with CAO's obligations under those orders, laws, or regulations. PNSC shall cooperate with CAO, as CAO reasonably requests, in CAO's compliance with such code of conduct requirements.

4.4 CAO's Right to Appoint PNSC Board Member. For so long as CAO remains bound by the provisions of this Agreement and does not suspend any of its obligations under it, CAO shall have the right, but not the obligation, to appoint one person to the Board of Directors of PNSC in accordance with the applicable provisions of PNSC's Bylaws. [For purposes of this Agreement and PNSC's Bylaws, CAO's exercise of its rights under Section 6.7 of this Agreement shall be deemed to constitute a suspension of CAO's obligations under this Agreement.] [Note: *The preceding sentence is needed only in those Agreements that include a Section 6.7 entitled "CAO's Right To Limit Obligations When CAO Crosses Direct Expense Threshold."*]

5. THE PARTIES' ADDITIONAL RIGHTS AND OBLIGATIONS DURING SAME-DAY OPERATIONS WHEN CRITICAL OPERATING CONDITIONS OCCUR. If, during same-day operations, either Party detects operating conditions affecting CAO that could lead to a Subregional Disturbance, the Parties shall make good faith efforts to identify and implement mutually acceptable solutions to the extent time and the circumstances permit. Specifically:

- (1) the Party that detects the operating conditions shall make good faith efforts to notify promptly the other Party;
- (2) the Parties shall make good faith efforts to communicate and collaborate to develop, evaluate, and implement mutually acceptable preventive or corrective actions; and
- (3) to the extent PNSC deems it appropriate, PNSC shall make good faith efforts to engage the cooperation of Other NWPP CAOs; and
- (4) to the extent PNSC deems it appropriate, PNSC shall make good faith efforts to coordinate with and engage the cooperation of Other Security Coordinators to develop, evaluate, and implement appropriate preventive or corrective actions.

6. THE PARTIES' ADDITIONAL RIGHTS AND OBLIGATIONS DURING IMPENDING OR ACTUAL SUBREGIONAL DISTURBANCES.

6.1 PNSC's Authority to Direct CAO To Take Action. Subject to the provisions of Section 6.2 below and consistent with Section 3.1 above, during the term of this Agreement PNSC shall have the right to direct CAO to take action whenever and for so long as PNSC, in its good-faith judgment, believes that the conditions specified in either clause (1) or clause (2) below, as well as the conditions specified in both clause (3) and clause (4) below, are satisfied:

- (1) efforts to remedy operating conditions under Section 5 above have been unsuccessful and there is an actual or impending Subregional Disturbance that creates a significant risk that transmission service within the NWPP Subregion will be seriously disrupted;
- (2) a sudden, unexpected Subregional Disturbance has occurred that creates a significant risk that transmission service within the NWPP Subregion will be seriously disrupted;
- (3) the action is necessary to prevent the actual or impending disruption or mitigate its extent, severity, or duration; and
- (4) there is insufficient time to prevent or mitigate the actual or impending disruption through cooperative measures.

[OPTION 1: 6.2 CAO's Obligations To Comply with PNSC Directives. CAO shall comply promptly with any and all PNSC directives issued under Section 6.1 of this Agreement to the extent CAO believes in its good-faith judgment that complying:

- (1) is within the physical capabilities of CAO's electric system (or any part of another party's electric system that CAO has the legal right to cause to comply with PNSC directives);
- (2) does not create serious and immediate risks to human health or safety; *provided, however,* that interruption of transmission service to loads that CAO has a firm obligation to serve shall not in itself necessarily be deemed to create serious and immediate risks to human health or safety;
- (3) does not create an immediate risk of serious damage to facilities or equipment within CAO's electric system or cause CAO to operate any of its electrical facilities or equipment in an unsafe manner;
- (4) does not cause CAO to violate any applicable law, regulation, lawfully promulgated rule or order, or other legal obligation, any FERC license provision, or any provision of the reliability criteria, standards, guidelines and operating procedures of NERC or WSCC; *provided, however,* that CAO may not refuse to comply with any PNSC directive on the basis that to do so would cause CAO to violate contractual obligations to supply, transmit, or deliver firm power; and
- (5) does not conflict with any non-power requirements applicable to CAO (including without limitation any obligations under environmental laws, regulations, court and administrative orders, or biological opinions).]

[Note: Any CAO may chose to include in its Agreement the language shown for Section 6.2 under Option 1 above or the language shown for Section 6.2 under Option 2 below. Furthermore, if a CAO elects the language under Option 1 above, it may choose to include or exclude whichever of subparagraphs (1) - (5) it wishes.]

[OPTION 2: 6.2 CAO's Obligations To Comply with PNSC Directives. CAO shall comply with any and all PNSC directives issued under Section 6.1 of this Agreement.]

[Note: As explained above, any CAO may chose to include as the Section 6.2 for its Agreement the language shown under either Option 1 or Option 2.]

[6.3 Additional Limitations on CAO's Obligations To Comply with PNSC Directives. In addition to the limitations contained in Section 6.2 above concerning CAO's obligations to comply with PNSC directives, CAO shall also be relieved from the obligation to comply with any PNSC directive

issued under Section 6.1 if the Executive Authority of CAO, in the good faith exercise of the Executive Authority's sole discretion, determines (1) that CAO is subject to constitutional or legislative limitations with respect to delegating authority or discretion over its facilities or operations to another party; and (2) that complying will conflict with CAO's statutory obligations or the Executive Authority's interpretation of how to implement CAO's statutory obligations. This Section 6.3 shall not apply to the extent that a court of competent jurisdiction determines that the conditions specified in either clause (1) or clause (2) of the preceding sentence have not been satisfied.]

[Note: Any CAO may chose to include the provisions of Section 6.3 in its Agreement or omit them. If Section 6.3 is omitted, the subheading and text following the section number will be replaced by the notation "This section intentionally omitted."]

6.4 CAO Reliance on PNSC Board Oversight. It is a material element of CAO's inducement to enter into this Agreement that the Bylaws of PNSC provide that PNSC's Board of Directors shall conduct a timely review after any directive issued by PNSC under Section 6.1 of this Agreement.

6.5 PNSC Assistance with Post-Disturbance Restoration. Following any serious disruption of transmission service within the NWPP Subregion, PNSC shall assist with and coordinate restoration activities as appropriate.

6.6 Undue Burdens.

6.6.1 Right to Initiate Discussions. The Parties intend that in responding to PNSC directives, CAO should not bear undue burdens as compared to Other NWPP CAOs that benefit from CAO's actions unless mutually acceptable compensatory procedures have been implemented. CAO shall therefore have the right, but not the obligation, to invoke the provisions of Sections 6.6.2 if CAO is directed to take action under Section 6.1 and CAO believes in good faith that Other NWPP CAOs benefited from CAO's actions and that taking the actions imposed an undue burden on CAO.

6.6.2 Discussions and Mediation. If the conditions specified in Section 6.6.1 above are satisfied, CAO may, at its option, notify PNSC that CAO wishes to initiate discussions with one or more Other NWPP CAOs identified by CAO that CAO believes have benefitted from CAO's actions. PNSC shall promptly forward CAO's notice to the Other NWPP CAOs identified by CAO and request that they participate in discussions with CAO concerning the matter. The purpose of the discussions shall be to consider whether there may be mutually acceptable (1) alternatives to or (2) compensation for CAO's actions. In addition, CAO may, at its option, engage the services of a mediator acceptable to all participants to help resolve the matter. CAO shall pay for the mediator's services unless the other participants agree to share the expense, but the Parties intend that the costs of mediation should be taken into account with respect to any resolution proposed through the mediation process.

6.6.3 Participation in Discussion and Mediations Initiated by Other NWPP CAOs. CAO acknowledges that Other NWPP CAOs have provisions in their security coordination agreements with PNSC comparable to those contained in Section 6.6 of this Agreement. CAO agrees to participate, at PNSC's request, in any discussion or mediation initiated by an Other NWPP CAO under provisions in its security coordination agreement comparable to Section 6.6. CAO shall not be obligated to pay for the services of any mediator engaged to conduct a mediation initiated by an Other NWPP CAO unless CAO has first agreed in writing to do so, but the Parties intend that the costs of mediation should be taken into account with respect to any resolution proposed through the mediation process.

6.6.4 Further Recourse. Should the result of the resolution procedures provided in this Section 6.6 be unsatisfactory to CAO, nothing in this Agreement shall prohibit or restrict CAO's right to pursue rights it may have under regulation, law, or equity (subject to Section 13.7 below).

[6.7 CAO's Right To Limit Obligations When CAO Crosses Direct Expense Threshold. At any time during the term of this Agreement when CAO has, as a result of responding to PNSC directives issued under Section 6.1, incurred unrecovered aggregate direct expenses (including without limitation incremental fuel costs, incremental expenses for power and transmission, direct labor costs, and related reasonable administrative overhead costs) during any calendar year equal to or greater than [\$100,000], CAO may, at its option, notify PNSC that CAO shall no longer be subject to PNSC directives issued under Section 6.1 of this Agreement. CAO may exercise its rights under this Section 6.7 by providing written notice to PNSC. Upon receiving CAO's written notice under this Section 6.7, PNSC shall have no further rights to direct CAO to take action under Section 6.1 of this Agreement unless CAO agrees in writing to reinstate its obligations to take action in response to PNSC directives issued under Section 6.1.] *[Note: Any CAO may elect to include the provisions of Section 6.7 in its Agreement or omit them. If a CAO elects to include Section 6.7, the CAO may specify any amount equal to or greater than \$100,000 as its threshold. Any CAO that elects to include Section 6.7 must also include the language in brackets under Section 4.4 above. If Section 6.7 is omitted, the subheading and text following the section number will be replaced by the notation "This section intentionally omitted."]*

7. DESCRIPTION AND TREATMENT OF INFORMATION TO BE PROVIDED

BYCAO. CAO's obligation to provide data and information to PNSC under this Agreement shall be as set forth in Section 4.2 above. PNSC's obligations with respect to protection and restrictions on use of any data or information provided by CAO to PNSC in connection with this Agreement, whether voluntarily or at PNSC's request, shall be governed by this Section 7.

7.1 Use Restrictions Concerning CAO-Provided Data and Information. All data and information provided by CAO to PNSC in connection with this Agreement (whether designated as confidential or not) shall be subject to the following restrictions:

- (1) PNSC shall use CAO's data and information solely for purposes of carrying out PNSC's obligations under this Agreement; and

- (2) PNSC shall make good faith efforts to ensure that any PNSC officers, employees, agents, and representatives who have access to the data and information are aware of and agree to be bound by the use restrictions and any applicable confidentiality obligations contained in this Agreement.

7.2 Information and Data To Be Held Confidential Automatically. Unless otherwise required by any state, federal, or provincial public disclosure law, any information or data provided to PNSC by CAO with respect to: (1) operating reserves, reactive power reserves, and generator status (including total MW and MVAR capacity of each generation facility under current operating conditions and real-time generation facility output in MW and MVAr); (2) scheduled energy flows over transmission paths; and (3) day-ahead, same-day, and planned long-term outage information if outage of the facilities affected reduces transmission transfer capability into, out of, or within the NWPP Subregion (collectively, “Generation and Outage Data”) shall be deemed confidential information of CAO.

7.3 Manner of Designating Additional Information as Confidential. If, during the term of this Agreement, PNSC requests that CAO provide any data or information that does not fall within the descriptions contained in Section 7.2 or Section 7.5, and if CAO believes in good faith that such data or information is confidential, CAO may, at its option, designate such data or information as confidential (“Designated Confidential Information”) before providing it to PNSC.

7.4 PNSC’s Confidentiality Obligations. PNSC shall not disclose Generation and Outage Data or Designated Confidential Information to any third party without CAO’s prior written consent (except as provided in Section 7.6 below). In addition, PNSC shall exercise reasonable care to protect the confidentiality of all Generation and Outage Data and Designated Confidential Information, including without limitation restricting access to Generation and Outage Data and Designated Confidential Information to those of its officers, employees, agents, and representatives for whom access is necessary to properly perform their duties.

7.5 Information Not Subject to Confidentiality Obligations. PNSC shall not be obligated to treat as confidential any data or information provided by CAO to PNSC that:

- (1) relates to (a) published or publicly available transfer capability limits of transmission lines, (b) published or publicly available real-time energy flows over transmission lines, (c) real-time frequency and voltage data, or (d) day-ahead and same-day information concerning the status (open or closed) of transmission system switches;
- (2) at the time of disclosure to PNSC is in the public domain or thereafter enters the public domain without any act or omission of PNSC;

- (3) is otherwise rightfully in the possession or knowledge of PNSC hereafter (as shown by written records made before such disclosure) and was not obtained by PNSC subject to a confidentiality obligation;
- (4) is rightfully acquired by PNSC from a third party who is not under any obligation of confidence with respect to such information;
- (5) is developed by PNSC independently of any information furnished to PNSC and before the disclosure of such information; or
- (6) is consolidated with other data or information in such a way as to not reveal data or information specific to CAO.

7.6 Exception for Emergencies and Legal Compulsion. Notwithstanding the provisions of Section 7.4, PNSC shall have the right to disclose Generation and Outage Data and Designated Confidential Information if: (1) PNSC determines that such information must be disclosed to avert unplanned transmission system service interruptions or to expedite restoration of transmission service; or (2) PNSC is required to make such disclosure by subpoena, oral deposition, interrogatory, request for production of documents, administrative order, or other nonconsensual, legally binding requirement.

7.7 Notice and Cooperation in Cases of Compelled Disclosure. If PNSC is requested or required, by subpoena, oral deposition, interrogatory, request for production of documents, administrative order, or other nonconsensual, legally binding requirement, to disclose any Generation and Outage Data or Designated Confidential Information, PNSC shall provide CAO with prompt notice of such request(s) so that it may, at its expense, challenge the disclosure, or seek an appropriate protective order. PNSC shall reasonably cooperate with CAO, at CAO's expense, to minimize or eliminate any such disclosure requirement consistent with applicable law, and to obtain proprietary or confidential treatment of any Generation and Outage Data or Designated Confidential Information that is ultimately required to be disclosed.

8. RELATIONSHIP BETWEEN PNSC AND CAO AND STANDARD OF PERFORMANCE FOR PNSC.

8.1 Additional PNSC Obligations and Limitations on Authority. PNSC is an independent contractor, not an employee or agent, of CAO. Without limitation of the foregoing, PNSC shall:

- (1) not enter into any contract, agreement or other commitment, or incur any obligation or liability, in the name or otherwise on behalf of CAO;
- (2) not be entitled to any worker's compensation, pension, retirement, insurance or other benefits afforded to employees of CAO;

- (3) provide for all federal income tax and other withholding relating to any compensation PNSC receives in connection with performing security coordination services under this Agreement;
- (4) pay all social security, unemployment and other employer taxes relating to the employment or compensation of any PNSC employees;
- (5) provide all worker's compensation and other insurance relating to the employment of any PNSC employees; and
- (6) perform all reporting, record keeping, administrative, and similar functions relating to the employment or compensation of any PNSC employees.

8.2 Standards of PNSC Performance. PNSC shall carry out its obligations under this Agreement in an efficient, expeditious, professional, and skillful manner. In providing security coordination services to CAO under this Agreement, PNSC shall comply with all applicable laws, ordinances, rules, regulations, orders, licenses, permits, and other governmental requirements (including, but not limited to, any such requirements imposed upon CAO with respect to PNSC's provision of security coordination services).

9. INSURANCE, INDEMNIFICATION, AND LIMITATIONS OF LIABILITY. To promote cooperation between the Parties, to avoid duplication of costs, and to carry out the purposes of this Agreement, the Parties agree to the following provisions for insurance, indemnification, and limited liability:

9.1 Insurance; Waiver of Subrogation Rights.

9.1.1 PNSC Insurance Coverage Requirements. Throughout the term of this Agreement, PNSC shall maintain insurance coverage that at a minimum:

- (1) provides general liability and errors and omissions insurance with respect to PNSC's performance under this Agreement;
- (2) provides for maximum per-occurrence self-insured retention of not more than \$1 million;
- (3) provides general liability coverage limits of not less than \$75 million and separate errors and omission coverage limits of not less than \$50 million;
- (4) provides an agreement or endorsement under which the insurance cannot be terminated, canceled, allowed to expire, or materially altered without 90 days'

prior written notice to PNSC and provides that such policy is primary over any other insurance; and

- (5) provides that PNSC's insurer shall be bound by any waivers of the insurer's rights of subrogation granted by PNSC.

9.1.2 Waiver of Subrogation Rights. PNSC hereby waives all rights of subrogation its insurer(s) may have against CAO.

9.2 PNSC's Obligation to Notify CAO with Respect to Insurance. PNSC shall not consent to or allow the insurance required under Section 9.1.1 above to be terminated, canceled, allowed to expire, or materially altered without providing at least 60 days' advance notice to CAO.

9.3 First Party Claims. Neither Party, its directors, commissioners, officers, nor employees shall be liable to the other Party for any loss or damage to the electric system or equipment of such other Party, or any loss or damages for bodily injury (including death) that such other Party or its employees may incur arising out of this Agreement or its performance.

9.4 Third-Party Claims. In the event third-party claims are made against either Party arising out of this Agreement or its performance, the Parties agree that:

- (1) In the event of any such claim, the Party against which the third-party claim is made shall provide immediate notice to the other Party pursuant to Section 13.1 below; shall make such immediate efforts as necessary to preserve evidence and/or protect against default judgment; and shall provide notice to the Claims Committee at the address designated for such purpose with a copy to the broker of record with respect to the insurance policy described in Section 9.1.1 above. PNSC shall provide notice to all Other NWPP CAO(s), notice as necessary to its insurance carrier, and refer such matter to the Claims Committee.
- (2) The Parties anticipate that the Claims Committee shall: (a) consist of widely respected risk or claims managers of Western Interconnection utilities; and (b) have responsibility to review any such claims; take action as necessary to properly investigate, evaluate, and defend such claims; and make recommendations regarding payment, rejection, or compromise of such claims.
- (3) In the event of legal action resulting from the denial of any such claim, the Parties anticipate that the Claims Committee shall recommend suitably qualified legal counsel to defend such claims. Subject to Section 13.7 below and to the extent permitted by law, the Parties agree, except where there is an irreconcilable conflict of interest, (a) to consent to joint representation in defense of such legal action and (b) to make good faith efforts to enter

into a mutually acceptable joint representation agreement to facilitate cooperation, information-sharing, and protection of attorney-client privilege and work product in connection with the joint defense. If joint representation is precluded by an irreconcilable conflict of interest or for any other reason, the Party unable to participate in joint representation shall provide legal counsel of its own choice, at its own expense, to defend such legal action.

- (4) Where the claim or legal action arises in whole or in part from allegedly negligent actions or inactions of PNSC in performance of obligations of this Agreement, the self-insured retention and the policy coverage described in Section 9.1.1 above shall be regarded as primary with respect to payments or judgments resulting from any such claim or legal action. Payments shall include reasonable attorney fees and costs of investigation and defense.
- (5) To the extent of insurance coverage, PNSC shall indemnify, defend, and hold CAO harmless from and against all Damages based upon or arising out of bodily injuries or damages to third Person(s) or parties, including without limitation death resulting therefrom, or physical damages to or losses of property caused by, arising out of or sustained, in connection with performance of this Agreement to the extent attributable to the negligence of PNSC or its employees, agents, suppliers and subcontractors (including suppliers and subcontractors of subcontractors; hereafter “Subcontractors”), specifically including, without limitation, where CAO has acted in response to a directive of PNSC issued under Section 6.1 of this Agreement.
- (6) Other than where CAO has acted in response to a directive of PNSC issued under Section 6.1 of this Agreement, subject to Section 13.7 below and to the extent permitted by law, CAO shall indemnify, defend, and hold PNSC harmless from and against Damages based upon or arising out of bodily injuries or damages to third Person(s) or parties, including without limitation death resulting therefrom, or physical damages to or losses of property caused by, arising out of or sustained, in connection with performance of this Agreement to the extent attributable to the negligence of CAO or its employees, agents, suppliers and Subcontractors.
- (7) Notwithstanding Section 9.4(4) above, in the event that any such Damage is caused by the negligence of CAO and PNSC, including their employees, agents, suppliers and Subcontractors, the Damage shall be borne by CAO and PNSC in the proportion that their respective negligence bears to the total negligence causing the Damage.

9.5 Inaccurate or Incomplete Data or Information. Liability as between the Parties for incomplete or inaccurate data or information shall be limited as set forth in Sections 4.1(8), 4.2(1), and 4.2(2) above and shall also be subject to the limitations set forth in Section 9.6 below.

9.6 Limitation of Damages. As against the other Party (including its directors, commissioners, officers, and employees), each Party waives all claims, and covenants not to sue or otherwise pursue any claim or remedy arising out of or in connection with this Agreement (whether based on contract, tort, or any other legal theory), except for:

- (1) claims arising under Section 9.4 of this Agreement with respect to third-party actions; and
- (2) claims for actual, direct damages only, which shall under no circumstances include any lost profits, lost data, or any indirect, incidental, consequential, special, exemplary, or punitive damages.

10. TERM, TERMINATION, AND SUSPENSION OF OBLIGATIONS.

10.1 Term. Unless sooner terminated under Section 10.2, 10.3, or 10.4 and subject to Section 10.5 below, this Agreement shall continue from the date it becomes effective under Section 2 until terminated by mutual agreement of the Parties. [*Alternate language: “Unless sooner terminated under Section 10.2, 10.3, or 10.4 below or by mutual agreement of the Parties (subject to Section 10.5), this Agreement shall continue for a period of 10 years from the date it becomes effective under Section 2”*] [*Any CAO may elect to substitute the alternate language providing for a 10-year term in place of the language providing for an indefinite term.*]

10.2 Termination or Suspension by CAO. Subject to Section 10.5 below, CAO may, at its option, suspend performance of its obligations under Section 6.2 of this Agreement or terminate this Agreement at any time for any reason or for no reason upon 30 days’ written notice to PNSC.

10.3 Termination by PNSC for Lack of Funding. Subject to Section 10.5 below, PNSC may terminate this Agreement upon 60 days’ written notice to CAO if PNSC’s funding arrangements with respect to performing its obligations under this Agreement are terminated and PNSC is unable to obtain alternative funding arrangements it deems satisfactory.

10.4 Automatic Termination. Subject to Section 10.5 below, this Agreement shall terminate automatically upon the dissolution of CAO or PNSC.

10.5 Survival. No termination [or expiration] of this Agreement shall relieve either PNSC or CAO of any obligations or liability incurred under this Agreement before the date the termination becomes effective, nor affect any limitations of liability or indemnification provided under this Agreement. In addition, the provisions of Sections 7.1, 7.2, 7.4, 7.5, 7.6, 7.7, 9.1.2, 9.3, 9.4, 9.5, 9.6, 10.5, 11, 13.5, and 13.6 shall survive any termination of this Agreement. [*Note: bracketed language is needed only for CAOs that select language for Section 10.1 providing for a ten-year term.*]

10.6 Notices of Agreement Terminations or Suspensions. Whenever any agreement between PNSC and any Other NWPP CAO under which PNSC provides security coordination services to the Other NWPP CAO is terminated for any reason, or if any Other NWPP CAO suspends its obligations (or is relieved of its obligations) to take action in response to PNSC's directives, PNSC shall promptly provide written notice to CAO of that termination, suspension, or relief. If this Agreement is terminated for any reason, or if CAO elects under [Section 6.7 or] Section 10.2 to suspend performance of its obligations to take action in response to PNSC's directives, PNSC shall promptly provide written notice to every Other NWPP CAO of that termination or suspension. *[Note: Bracketed reference to Section 6.7 is needed only for those Agreements that include Section 6.7.]*

11. DISPUTES. Any dispute between PNSC and CAO arising out of or in connection with this Agreement (except for any matter arising under Section 6.6, which shall be governed solely by the provisions of Section 6.6) shall be resolved exclusively in accordance with the provisions of this Section 11.

11.1 Notice; Senior Management Efforts to Resolve Disputes. Whenever either Party believes that a dispute has arisen out of or in connection with this Agreement, that Party shall promptly provide written notice to the other Party describing the matter(s) in dispute. Unless the dispute is resolved sooner, senior management for both Parties shall meet at least three times within a period of two months following delivery of a dispute notice to attempt in good faith to resolve the dispute. If the Parties' senior management does not resolve the dispute within two months following delivery of a dispute notice, the Parties shall submit the dispute to mediation in accordance with Section 11.2 below, unless both Parties agree to continue efforts to resolve the dispute through meetings of the Parties' senior management. If the Parties elect to continue efforts to resolve the dispute through meetings of the Parties' senior management following the two-month period after delivery of a dispute notice, either Party may at any time thereafter terminate discussions and require the dispute to be submitted to mediation in accordance with Section 11.2 below.

11.2 Mediation. If the Parties are unable to resolve a dispute through the procedures set forth in Section 11.1 above within two months following delivery of a dispute notice (or at any subsequent request of either Party if the Parties have agreed to continue senior management discussions as permitted under Section 11.1), the Parties shall submit the dispute to mediation in accordance with this Section 11.2. The Parties shall select a mediator by mutual agreement within 30 days of the end of the two-month period following delivery of a dispute notice (or, if the Parties have agreed to continue senior management discussions as permitted under Section 11.1, within 30 days of a subsequent request by either Party to submit the dispute to mediation). If the Parties cannot agree on a mediator, the Parties shall attempt to identify a mutually acceptable person to select a mediator or a mutually acceptable manner of selecting a mediator. If the Parties cannot identify a mutually acceptable person or manner for selecting a mediator, they shall select a mediator as follows: The Parties shall request that the manager of the Northwest Regional Transmission Association (or a successor organization) furnish a list containing the names and short biographies of three potential mediators. Within 15 days of receiving the list of potential mediators,

the Parties shall meet (in person or by telephone), each Party shall strike one name from the list, and the person then remaining on the list shall be the mediator. Any mediator selected other than by agreement of the Parties shall not be a current or past employee, officer, director, agent, or other representative of either of the Parties or any of their affiliates. The costs of the mediator's services shall be born equally by the Parties unless the Parties agree otherwise, but the Parties also intend that the costs of mediation should be taken into account in any resolution proposed through the mediation process. Unless the dispute is resolved sooner or the mediator determines that the Parties are at an impasse, the Parties shall continue efforts to resolve the dispute through mediation for a period of not less than two months following initiation of mediation, and shall meet with the mediator not less than three times during that period. If efforts to resolve the dispute through mediation are not successful within two months following the initiation of mediation, either Party shall have the right, but not the obligation, to pursue additional remedies as permitted under Section 11.3 below.

11.3 Remedies if Discussions and Mediation Are Unsuccessful. If any dispute arising out of or in connection with this Agreement is not resolved through the procedures set forth in Sections 11.1 and 11.2 above, either Party may thereafter pursue any additional remedies it may have under regulation, law, or equity, subject to Section 9 and Section 13.7. Neither Party may pursue any remedy other than those specified in Sections 11.1 and 11.2 above without having first complied with all of the provisions set forth in both Sections 11.1 and 11.2; *provided, however*, that to the extent one Party refuses to comply with the procedures set forth in Sections 11.1 and 11.2, the other Party shall be released from its obligation to comply with those procedures before pursuing additional remedies. Nothing in this Section 11 shall in any manner limit or delay either Party's ability to terminate this Agreement or exercise any other rights under this Agreement to suspend all or any part of its obligations.

12. UNCONTROLLABLE FORCE. A Party shall not be in breach of this Agreement for failure to perform its obligations under this Agreement when the failure is caused by an Uncontrollable Force that the Party, despite the exercise of due diligence, is unable to remove with reasonable dispatch; *provided, however*, that a Party shall be excused from performance of its obligations only to the extent and for so long as the Uncontrollable Force actually and reasonably prevents the Party from performing those obligations. If an Uncontrollable Force prevents a Party from performing any of its obligations under this Agreement, that Party shall make good faith efforts to: (1) promptly notify the other Party of the Uncontrollable Force and confirm the notice in writing as soon as reasonably practicable; (2) mitigate the effects of the Uncontrollable Force, remedy its inability to perform, and resume full performance of its obligations under this Agreement; (3) keep the other Party informed of its efforts to remedy the Uncontrollable Force; and (4) notify the other Party in writing as soon as it has resumed full performance of its obligations under this Agreement. Notwithstanding any of the foregoing, the settlement of any strike, lockout, or labor dispute constituting an Uncontrollable Force shall be within the sole discretion of the Party to this Agreement involved in the strike, lockout, or labor dispute and the requirement that a Party make good faith efforts to remedy the cause of the Uncontrollable Force or mitigate its effects and resume full performance shall not apply to strikes, lockouts, or labor disputes.

13. MISCELLANEOUS

13.1 Notices. Any notice under this Agreement shall be deemed to be properly given if given in writing and delivered in person, delivered to a nationally recognized overnight courier service properly addressed and with delivery charges prepaid, or by facsimile with confirmation of successful transmission, to the intended recipient as follows:

If to CAO:

Attn: _____
Telephone Number: _____
Facsimile Number: _____

If to PNSC:

Attn: _____
Telephone Number: _____
Facsimile Number: _____

Either Party may change its address, telephone number, or facsimile number specified in this paragraph by giving the other Party notice of such change in accordance with this Section 13.1.

13.2 Assignment. Neither Party may, without the other Party's prior written consent (which consent shall not be unreasonably withheld or delayed): (1) assign this Agreement or any right or interest in this Agreement (by contract, operation of law or otherwise); or (2) subcontract or delegate any of its duties under this Agreement. Subject to the foregoing restrictions, this Agreement shall be fully binding upon, inure to the benefit of, and be enforceable by the Parties and their respective successors, assigns, and legal representatives.

13.3 Obligation To Offer Comparably Favorable Terms. If at any time PNSC provides security coordination services to any Other NWPP CAO under an agreement that contains terms that differ from the terms of this Agreement (whether those different terms were part of the other agreement as originally executed or were incorporated through amendment), PNSC shall, at CAO's request, execute an amendment to this Agreement to incorporate terms that are comparably favorable to those contained in any Other NWPP CAO's agreement for security coordination services.

13.4 Copies of Other NWPP CAO Agreements. PNSC shall provide to CAO copies of all agreements to provide security coordination services to any Other NWPP CAO and all amendments thereto.

13.5 CAO Audit Rights. During the term of this Agreement and for a period of three years thereafter, CAO shall have the right, upon reasonable notice and during normal business hours to inspect PNSC's books and records relating to PNSC's performance of its obligations under this Agreement; *provided, however*, that CAO shall not have the right to audit any portion of PNSC's books and records with respect to which PNSC has a confidentiality obligation to a third party. During the term of this Agreement and for a period of three years thereafter, PNSC shall maintain books and records relating to its performance under this Agreement in a reasonable manner sufficient to enable CAO to exercise its audit rights under this Section 13.5.

13.6 Governing Law. This Agreement will be interpreted, construed and enforced in all respects in accordance with the laws of the state of Washington without reference to its rules relating to choice of law, except to the extent preempted by the laws of the United States of America; *provided, however*, that, notwithstanding the foregoing, if CAO is a United States government entity (including but not limited to a federal power marketing administration), this Agreement shall in all respects be interpreted, construed, and enforced in accordance with the laws of the United States.

13.7 Law Relating to the Federal Government. The Parties acknowledge with respect to CAO or any Other NWPP CAO that is an agency of the United States federal government, under law in effect as of the effective date of this Agreement, such agency has stated that with respect to this Agreement the federal government:

- (1) cannot defend nonfederal or nongovernmental interests;
- (2) is not subject to equitable relief; and
- (3) has waived its sovereign immunity by statute only as to actual damages.

13.8 No Third-Party Beneficiaries or Standard of Care. Nothing in this Agreement shall be construed to create any duty to, any standard of care with reference to, or any liability or inference of liability to any third Person, or create on behalf of CAO any duty to any other Person to operate CAO's electric system in a manner designed to minimize electric disturbances in another electric system.

13.9 No Dedication of Facilities. No undertaking by CAO under any provision of this Agreement shall constitute the dedication of CAO's electric system or any portion thereof to the public or to PNSC.

13.10 No Partnership, Etc. Nothing contained in this Agreement shall be construed to create an association, joint venture, trust, or partnership, or impose a trust or partnership covenant, obligation, or liability on or with regard to either of the Parties. Each Party shall be individually responsible for its own covenants, obligations, and liabilities under this Agreement.

13.11 Recitals, Headings, and Subtitles. The recitals, headings, and subtitles in this Agreement are for the convenience of the Parties and are not to be used for its construction or interpretation.

13.12 Limited Purpose of Certain References. Any references to NERC or the WSCC in this Agreement, or to any definitions, standards, criteria, guidelines, policies, or operating procedures used or promulgated by NERC or the WSCC, are for convenience only. Neither Party shall be deemed to accept, endorse, or be bound by any definitions, standards, criteria, guidelines, policies, or operating procedures of NERC or the WSCC by virtue of reference to them in this Agreement.

13.13 Complete Agreement. This Agreement sets forth the entire agreement, and supersedes any and all prior agreements, of the Parties with respect to its subject matter. No amendment of any provision of this Agreement will be valid unless set forth in a written amendment hereafter signed by both Parties.

13.14 Negotiated Agreement. PNSC and CAO specifically warrant that the terms and conditions of this Agreement are the subject of mutual negotiation by the Parties, and are specifically and expressly agreed to in consideration of the mutual benefits derived under the terms of this Agreement.

13.15 Implementation Review. PNSC shall hold a meeting on June 1, 2000, at a place and time reasonably convenient to PNSC, CAO, and each Other NWPP CAO, to review implementation of this Agreement. CAO shall attend the implementation review meeting and PNSC shall request that each Other NWPP CAO attend the meeting.

CAO:

By_____

Name:_____

Title:_____

PNSC:

By:_____

D. J. Bernhardsen
President

Acknowledged:

Christine M. Elliott
PNSC Corporate Secretary